



WISCONSIN HOUSING & ECONOMIC DEVELOPMENT AUTHORITY

Fritz Ruf
Executive Director

Tommy G. Thompson
Governor

Edwin J. Zagzebski
Chairman

September 15, 1997

Honorable Brian Burke
Joint Committee on Finance
P.O. Box 7882
Madison, Wisconsin 53707

Honorable Scott Jensen
Joint Committee on Finance
P.O. Box 8952
Madison, Wisconsin 53708

Re: Wisconsin Development Reserve Fund

Dear Chairmen Burke and Jensen:

Pursuant to Wisconsin Statute 234.93(4), enclosed please find the following reports relating to the Wisconsin Development Reserve Fund:

1. WDRF Balance Transfer on June 30, 1997
2. Attachment 1: Calculation of June 30, 1997 WDRF Balance
3. Projected WDRF Balance Transfer on June 30, 1998
4. Projected WDRF Balance Transfer on June 30, 1999

Thank you also for allowing us time to produce these reports based upon actual year-end information. We believe these reports are more meaningful when based upon accurate data and not projections.

Should you have any questions or comments on the reports, please feel free to call me or Jim Langdon at 266-3529.

Sincerely,



Fritz Ruf
Executive Director

cc: Secretary Mark Bugher
Robert Lang, Legislative Fiscal Bureau

Wisconsin Housing and Economic Development Authority (WHEDA)

**Balance Transfer: Wisconsin Development Reserve Fund (WDRF)
June 30, 1997**

Calculation

1	WDRF Balance (1)		\$12,939,022	
	Outstanding Claims (2)			
2	Ag Chem Clean Up	0		
3	Agribusiness	338,671		
4	Clean Air	0		
5	Contract	0		
6	CROP	0		
7	Drought	0		
8	Non-point Source	0		
9	Recycling	0		
10	Stratospheric Ozone	0		
11	Taliesin	0		
12	Target Area	762,702		
13	Tourism	91,764		
14	Total		1,193,137	Sum lines 2-13
	Principal and Outstanding Guarantees (3)			
15	Ag Chem Clean Up	585,000		650,000 times 90% guarantee
16	Agribusiness	4,500,000		5,000,000 times 90% guarantee
17	Clean Air	900,000		1,000,000 times 90% guarantee
18	Contract	1,800,000		2,000,000 times 90% guarantee
19	CROP	27,000,000		30,000,000 times 90% guarantee
20	Drought	0		No authority available
21	Non-point Source	765,000		850,000 times 90% guarantee
22	Recycling	138,438		Actual exposure
23	Stratospheric Ozone	450,000		500,000 times 90% guarantee
24	Taliesin	7,200,000		8,000,000 times 90% guarantee
25	Target Area	9,000,000		10,000,000 times 90% guarantee
26	Tourism	7,200,000		8,000,000 times 90% guarantee
27	Total	59,538,438		Sum lines 15-26
28	4:1 reserve calculation		14,884,610	Line 27 divided by 4
29	Total Deductions from WDRF Balance		<u>16,077,747</u>	add lines 14 and 28
30	Calculation of Amount Available for Transfer		(3,138,725)	Line 1 less line 29
31	Transfer to General Fund		0	Line 30 or zero if line 30 less than zero

(1) Please see attachment 1 for calculation of fiscal 1996 WDRF balance

(2) 234.93(4)(a)1, Wis. Stats.: "amounts sufficient to pay all outstanding claims under the programs guaranteed by funds from the Wisconsin development reserve fund." Includes pending claims against the WDRF and total guarantee amount of all nonperforming loans.

(3) 234.93(4)(a)2, Wis. Stats.: "amounts sufficient to fund guarantees under all of the programs guaranteed by funds from the Wisconsin development reserve fund at a ratio of \$1 of reserve funding to \$4 of total principal and outstanding guaranteed principal that the authority may guarantee under all of the programs." Each line (except Recycling) includes 90% of all performing loans and remaining outstanding guaranteed principal the Authority may guarantee on June 30, 1997, less amount of claims under (1) above. Recycling represents actual remaining guarantee exposure.

Wisconsin Housing and Economic Development Authority (WHEDA)

Attachment 1

Calculation of June 30, 1997 Wisconsin Development Reserve Fund (WDRF) Balance

1	WDRF Balance 6/30/96		14,188,016	
2	Appropriations to WDRF	121,076		
3	Investment Income	684,103		
4	Fee Income	39,369		
5	Guarantee Payment Recoveries	111,522		
6	Required Lapses to State General Fund	0		
7	Guarantee Payments (Claims)	(759,181)		
8	Interest Subsidy Payments (CROP & Tourism)	(131,529)		
9	Admin. Expense Reimbursement to WHEDA General Fund	(1,314,354)		
10	Total		(1,248,994)	Sum lines 2-9
11	WDRF Balance 6/30/97		12,939,022	Sum lines 1 and 10

Wisconsin Housing and Economic Development Authority (WHEDA)**Balance Transfer: Wisconsin Development Reserve Fund (WDRF)
June 30, 1998 Projection**

Calculation

1	Actual WDRF Balance 6/30/97	12,939,022	
	Fiscal 1998 Projections		
2	Appropriations to WDRF	0	
3	Investment Income	863,451	
4	Fee Income	36,000	
5	Guarantee Payment Recoveries	0	
6	Required Lapses to State General Fund	0	
7	Guarantee Payments (Claims)	(530,832)	
8	Interest Subsidy Payments (CROP & Tourism)	(115,669)	
9	Admin. Expense Reimbursement to WHEDA General Fund	(1,353,768)	
10	Total	(1,100,818)	Sum lines 2-9
11	Projected WDRF Balance 6/30/98	11,838,204	Line 1 plus line 10
	Principal and Outstanding Guarantees		
12	Ag Chem Clean Up	585,000	650,000 times 90% guarantee
13	Agribusiness	4,500,000	5,000,000 times 90% guarantee
14	Clean Air	900,000	1,000,000 times 90% guarantee
15	Contract	1,800,000	2,000,000 times 90% guarantee
16	CROP	27,000,000	30,000,000 times 90% guarantee
17	Drought	0	No authority available
18	Non-point Source	765,000	850,000 times 90% guarantee
19	Recycling	138,438	Projected exposure
20	Stratospheric Ozone	450,000	500,000 times 90% guarantee
21	Taliesin	7,200,000	8,000,000 times 90% guarantee
22	Target Area	9,000,000	10,000,000 times 90% guarantee
23	Tourism	<u>7,200,000</u>	8,000,000 times 90% guarantee
24	Total	59,538,438	Sum lines 12-23
25	4:1 reserve calculation	14,884,610	Line 24 divided by 4
27	Calculation of Amount Available for Transfer	(3,046,406)	Line 11 less line 25
28	Transfer to General Fund	0	Line 27 or zero if line 27 less than zero

Wisconsin Housing and Economic Development Authority (WHEDA)

Balance Transfer: Wisconsin Development Reserve Fund (WDRF) June 30, 1999 Projection

Calculation

1	Projected WDRF Balance 6/30/98	11,838,204	
	Fiscal 1999 Projections		
2	Appropriations to WDRF	0	
3	Investment Income	772,163	
4	Fee Income	36,000	
5	Guarantee Payment Recoveries	0	
6	Required Lapses to State General Fund	0	
7	Guarantee Payments (Claims)	(530,832)	
8	Interest Subsidy Payments (CROP & Tourism)	(115,669)	
9	Admin. Expense Reimbursement to WHEDA General Fund	(1,421,460)	
10	Total	(1,259,798)	Sum lines 2-9
11	Projected WDRF Balance 6/30/99	10,578,406	Line 1 plus line 10
	Principal and Outstanding Guarantees		
12	Ag Chem Clean Up	585,000	650,000 times 90% guarantee
13	Agribusiness	4,500,000	5,000,000 times 90% guarantee
14	Clean Air	900,000	1,000,000 times 90% guarantee
15	Contract	1,800,000	2,000,000 times 90% guarantee
16	CROP	27,000,000	30,000,000 times 90% guarantee
17	Drought	0	No authority available
18	Non-point Source	765,000	850,000 times 90% guarantee
19	Recycling	138,438	Projected exposure
20	Stratospheric Ozone	450,000	500,000 times 90% guarantee
21	Talliesin	7,200,000	8,000,000 times 90% guarantee
22	Target Area	9,000,000	10,000,000 times 90% guarantee
23	Tourism	<u>7,200,000</u>	8,000,000 times 90% guarantee
24	Total	59,538,438	Sum lines 12-23
25	4:1 reserve calculation	14,884,610	Line 24 divided by 4
27	Calculation of Amount Available for Transfer	(4,306,204)	Line 11 less line 25
28	Transfer to General Fund	0	Line 27 or zero if line 27 less than zero



December 12, 1997

Senator Brian Burke
Room LL1
119 Martin Luther King Jr. Blvd.
P.O. Box 7882
Madison 53707-7882

WISCONSIN
HOUSING AND
ECONOMIC
DEVELOPMENT
AUTHORITY

Re: Fiscal 1997 Annual Report

Dear Senator Burke: *Brian*

Tommy G. Thompson
Governor

Edwin J. Zagzebski
Chairman

Fritz Ruf
Executive Director

Pursuant to section 234.25, Wisconsin Statutes, attached is the fiscal 1997 annual report of the Wisconsin Housing and Economic Development Authority (WHEDA). This report contains information about WHEDA's fiscal 1997 operations and accomplishments, our strategic plan and the year-end report of our public auditor. Please note that each of the housing programs described in the following pages are consistent with the goals, policies and objectives of the state housing plan.

Should you have any questions or comments on this report, please call me or Jim Langdon at 266-3529. Thank you for your interest in WHEDA.

201 West Washington Avenue
Suite 700
PO Box 1728
Madison, WI 53701-1728
tel 608/266-7884
fax 608/267-1099

Sincerely,

Fritz Ruf
Fritz Ruf
Executive Director

Attachments

101 West Pleasant Street
Suite 100
Milwaukee, WI 53212-3962
tel 414/227-4039
fax 414/227-4704

www.wheda.state.wi.us
wheda@mail.state.wi.us

WHEDA supports equal
housing opportunities for
all persons



Fiscal 1997 Report to the Legislature



Members of the Authority

Edwin J. Zagzebski, Chairman
John Petersen III, Vice Chairman
Duane Weed, Treasurer
Lorri J. Kieff
E. James Ladwig
Jeff Petersen
Senator Carol Roessler
Senator Gwendolynne Moore
Representative David Ward
Representative Johnnie Morris-Tatum
Secretary Mark Bugher, Department of Administration
Secretary William McCoshen, Department of Commerce

Schofield
Madison
Necedah
Oneida
Racine
Waupaca
Oshkosh
Milwaukee
Fort Atkinson
Milwaukee
Madison
Madison

Executive Director

Fritz Ruf

Pewaukee

Table of Contents

	Page
Fiscal 1997 Program Activity	
Single Family Housing	1
Multifamily Housing	1
Agricultural Development	2
Small Business Development	3
Fiscal 1998-99 Strategic Plan	
Mission, Vision, Values	5
Performance Objectives	6
Financial Objectives	10
Fiscal 1997 Audited Financial Statements	Attached

Fiscal 1997 Program Activity



Single Family Housing

The HOME Loan is a low interest, low down payment mortgage for the purchase of homes by low and moderate income individuals and families. HOME Loans are limited to first time home buyers and those purchasing in areas of the state that have been specially targeted for revitalization or economic stimulation. Income and purchase price limits apply.

In Fiscal 1997, WHEDA approved the following HOME Loans:

Number of HOME Loans	4,132
Amount of HOME Loans	\$227,761,552

The Home Improvement Loan enables low and moderate income home owners to make non-luxury or energy conserving improvements to their homes. To qualify, borrowers must meet income eligibility criteria and use the funds for eligible improvements.

In Fiscal 1997, WHEDA approved the following Home Improvement Loans:

Number of Home Improvement Loans	203
Amount of Home Improvement Loans	\$1,872,885

The Property Tax Deferral Loan Program provides loans to low income elderly Wisconsin home owners pay their property tax bills.

In Fiscal 1997, WHEDA approved the following Property Tax Deferral Loans:

Number of Property Tax Deferral Loans	307
Amount of Property Tax Deferral Loans	\$541,885

Multifamily Housing

The Affordable Housing Tax Credit provides a credit against federal tax liability as an incentive for the development, acquisition, and rehabilitation of affordable rental housing. In general, the program serves households with income not exceeding 60 percent of county median income. WHEDA has been designated by the Governor as the Wisconsin administrator of the program.

In Fiscal 1997, WHEDA approved the following Affordable Housing Tax Credit allocations:

Number of Tax Credit Allocations	38
Amount of Tax Credits Allocated	\$7,258,368
Number of Units	1,559

Fiscal 1997 Program Activity



The Multifamily Mortgage Loan provides construction and permanent financing for the development of multifamily rental housing through the sale of federally tax exempt mortgage revenue bonds or taxable bonds. Financing is subject to federal requirements including limitations on the availability of tax exempt bonding, project eligibility, and rent and occupancy restrictions.

In Fiscal 1997, WHEDA approved the following Multifamily Mortgage Loans:

Number of Multifamily Mortgage Loans	6
Amount of Multifamily Mortgage Loans	\$10,691,500
Number of Units	264

The WHEDA Foundation Housing Grant Program helps nonprofit organizations, local units of government and Indian tribes meet the housing needs of homeless persons, alcohol or drug dependent persons, domestic abuse victims, developmentally disabled persons, low income or frail elderly persons, chronically mentally ill persons, physically impaired or disabled persons, and/or persons who lack access to traditional permanent housing. Financed through WHEDA reserves, grants are awarded annually on a statewide competitive basis. Single awards are made in amounts up to \$25,000.

In Fiscal 1997, WHEDA approved the following WHEDA Foundation Housing Grants:

Number of WHEDA Foundation Grants	28
Amount of WHEDA Foundation Grants	\$500,000
Anticipated Number of Units/Beds	876

Agricultural Development

Beginning Farmer Bonds provide federally tax-exempt financing for first-time farmers. Loans of up to \$250,000 are available for the purchase of land, equipment, buildings and livestock. Local lenders back Beginning Farmer Bonds with a letter of credit.

In Fiscal 1997, WHEDA approved the following Beginning Farmer Bond Loans:

Number of Beginning Farmer Bond Loans	8
Amount of Beginning Farmer Bond Loans	\$1,231,691

Fiscal 1997 Program Activity



The Credit Relief Outreach Program (CROP) is a loan guarantee program for Wisconsin farmers. The program helps farmers obtain agricultural production loans of up to \$20,000 through local lenders.

In fiscal 1997, WHEDA approved the following CROP guarantees:

Number of CROP Guarantees	1,486
Amount of CROP Guarantees	\$19,585,695

The FARM Fund is a loan guarantee program for the expansion and modernization of Wisconsin farms. The program provides loan guarantees for land, equipment, buildings and livestock.

In fiscal 1997, WHEDA approved the following FARM Fund guarantees:

Number of FARM Fund Guarantees	12
Amount of FARM Fund Guarantees	\$497,660

Small Business Development

The Linked Deposit Loan (LiDL) Subsidy reduces the cost of borrowing for small businesses that are more than 50 percent owned and controlled by women or minority group members. Loans may be used for the purchase or rehabilitation of land, buildings, and business equipment. The project undertaken must result in the creation or retention of jobs.

In Fiscal 1997, WHEDA approved the following LiDL Subsidies:

Number of LiDL Subsidies	48
Amount Committed	\$2,386,959
Number of Jobs Created	144
Number of Jobs Retained	8

The Tourism Fund helped in the expansion of existing tourism businesses and businesses that derive more than 50 percent of sales from furnishing goods or services to a tourism related business. The Tourism Fund was replaced by the WHEDA Small Business Guarantee in October 1997.

In Fiscal 1997, WHEDA approved the following Tourism Fund guarantees:

Number of Tourism Fund Guarantees	17
Amount of Tourism Fund Guarantees	\$1,086,415
Number of Jobs Created	18
Number of Jobs Retained	12

Fiscal 1997 Program Activity



The Target Area Fund assisted businesses located in an economically distressed area or relocating into such an area. The Target Area Fund was replaced by the WHEDA Small Business Guarantee in October 1997.

In Fiscal 1997, WHEDA approved the following Target Area Fund guarantees:

Number of Target Area Fund Guarantees	32
Amount of Target Area Fund Guarantees	\$3,309,524
Number of Jobs Created	101
Number of Jobs Retained	11

The Agribusiness Fund provides loan guarantees of up to \$675,000 for projects that result in the development of new or more viable methods for processing or marketing a Wisconsin grown commodity.

In Fiscal 1997, WHEDA approved no Agribusiness Fund guarantees.

The Contract Fund provided small businesses with an opportunity to enter government contracts or contracts with businesses with gross annual sales of more than \$10 million. Eligible businesses must be located in an economically distressed area or at least 51 percent owned and controlled by socially and economically disadvantaged individuals. The Contract Fund was replaced by the WHEDA Small Business Guarantee in October 1997.

In Fiscal 1997, WHEDA approved no Contract Fund guarantees.

Fiscal 1998-99 Strategic Plan



Mission

The Wisconsin Housing and Economic Development Authority serves Wisconsin residents and communities by working with others to provide creative financial and technical resources to stimulate and preserve affordable housing, small businesses, and agriculture.

Vision

Wisconsin citizens and business will recognize and value the Wisconsin Housing and Economic Development Authority as the industry leader. They will be attracted to our services and resources because we:

- Satisfy the needs of our customers in a changing environment

- Provide innovative products to customers inadequately served by existing resources

- Respect the needs of nontraditional customers and identities of communities

- Strengthen our own viability to meet our mission for years to come

Through these, we create opportunities for quality living.

Values

The Members and Staff of the Wisconsin Housing and Economic Development Authority value:

People: We need each other to be successful. We respect individual differences, and help each other reach our highest potential.

Personal Responsibility: All staff at all levels are accountable for their work and behavior.

Teamwork: Teams promote creative solutions that are essential to reaching our goals.

Customer Service: Satisfied customers are a measure of our success.

Excellence: Excellence is the benchmark of each day's work.

Financial Viability: Financial stability and sustainable growth are necessary to meet our mission.

Ethics: Customer confidence and faith are the result of never compromising high ethical standards.

Communication: An open exchange of information is the foundation of our achievements.

Innovation: Our success depends upon forward thinking, adaptability and risk taking.



Performance Objectives

1. Achieve broader and more attractive services based on identified market needs
 - A. Expand, modify, and critically examine viability of services
 1. Evaluate utilization of services
 2. Evaluate services based upon customer and community input
 3. Evaluate other services in the marketplace
 4. Generate new services based upon evaluations
 5. Identify most viable markets and markets with greatest needs
 - B. Increase the use of alternative resources
 1. Affiliate with private and public entities to enhance WHEDA's services
 2. Use outsourcing to enhance services
 - C. Utilize technology more effectively while maintaining current operational systems
 1. Conform to consistent standards when selecting new technologies
 2. Expand mobile computing features and function
 3. Continue integration of current and future software application and database systems
 4. Provide incentives for customers to use ACH
 5. Optimize use of the Internet for business purposes
 6. Increase electronic submission options for customer communications
 - D. Work with legislature and administration to gain ability to meet identified market needs
 1. Identify federal and state decision makers and inform them of key issues
 2. Lobby administration and legislature for support of WHEDA's mission
 3. Work to pass broad-based economic development legislation
 4. Publish legislative newsletter
 5. Initiate quarterly events and invite legislators
 - E. Maximize use of information
 1. Implement a process for submission of new service ideas
 2. Review, consolidate and simplify customer manuals on a defined schedule



Performance Objectives

2. Create a view of WHEDA as a positive force in the marketplace

A. Strengthen our understanding of and relationships with customers, communities, and public officials

1. Conduct regional needs assessment annually
2. Hold listening sessions for focus groups for each service line or region annually
3. Create a master event calendar with universal access
4. Conduct advisory board meetings for all service lines three times annually
5. Survey customers for all service lines annually
6. Encourage staff to be in the field at least one day annually
7. Provide feedback to lenders on their performance/activities

B. Improve responsiveness to customers

1. Establish protocol, including standards for customer follow up, voice mail, correspondence, answering telephone calls, e-mails, and providing telephone coverage across the Authority
2. Survey internal customers for satisfaction with service, e.g. response time to e-mails and voice mail, friendliness, helpfulness, directing calls to appropriate person
3. Implement an interactive tax credit allocation process
4. Have an outside expert survey staff to determine telephone needs and make and implement recommendations for systems for the new building
5. Identify customers who would benefit from Internet e-mail communications and implement based on results

C. Increase customers', communities', and public officials' knowledge and understanding of WHEDA's mission

1. Notify elected officials of WHEDA activities in their areas
2. Offer "WHEDA on Call" in the field, bring in experts to the local level on a periodic basis
3. Promote use of ad slicks
4. Increase positive media coverage
5. Expand customer oriented sales and marketing tools for CDOs
6. Continue to develop and use Internet to promote WHEDA services



Performance Objectives

3. Optimize organizational effectiveness

A. Ensure appropriate skills and industry knowledge throughout the Authority

1. Develop a training plan for each employee
2. Establish training requirements by job function
3. Provide customer service, business, and communication skills training to all staff
4. Provide a better foundation of knowledge of Authority services and processes to all staff
5. Implement team training

B. Increase quality and productivity

1. Develop an Intranet for the Authority
2. Utilize outside resources as a component of process improvement
3. Include cross-functional representation on appropriate IT project
4. Develop and identify software specialists among users
5. Evaluate and continuously improve business processes
6. Utilize our systems to enhance the communication of meaningful information

C. Develop team skills

1. Establish expectations and scope for each team
2. Evaluate team structure/reorganization on an ongoing basis
3. Institute a monthly managers' meeting

D. Align culture with structure and strategy

1. Review policies and procedures and change them to reflect the new culture and structure
2. Define desired culture, assess the current culture, and implement a plan to achieve the desired culture

E. Link rewards and incentives to Performance Objectives

1. Expand reward alternatives such as WHEDA Bucks, recognition, time off, expanded responsibilities
2. Develop a system to award individual and team bonuses based on personal and team performance objectives
3. Make annual salary adjustment on employment anniversary date
4. Employ an outside firm to review salary structure and market consistency



Performance Objectives

4. Appropriately balance portfolio risk

A. Critically examine viability of services

1. Identify saturated Multifamily and Affordable Housing Tax Credit markets
2. Remodel Multifamily and Economic Development risk assessment tools
3. Establish benchmarks for measuring loan portfolio risk and performance against industry standards

B. Coordinate market, mission and portfolio needs

1. Coordinate WHEDA and other resources to encourage development in areas of unmet need
2. Consider concentration of risk in developing lending policy

C. Develop contingency plans for major portfolio risks

1. Assess and prepare for impact of external forces on our portfolios (W2, recession)
2. Investigate external software to determine methods others use to measure risk
3. Focus risk evaluation by portfolio within the critical 2-3 year aging point
4. Increase methods for transferring risk to others
5. Implement a layered system of GLF guarantees based on exposure
6. Track the performance of portfolio in relation to economic indicators



Financial Objectives

I. Enhance current capital structure

A. Maintain adequate fund balance to provide flexibility

1. Develop plan for establishing annual grant fund amounts relative to annual net revenues and desired growth in fund balance

B. Leverage fund balance to provide for asset growth

1. Explore the full range of public, nonprofit, and private affiliations that may leverage WHEDA financial resources

C. Increase the use of alternative sources of public and private capital

1. Pursue pension funds as source of funds
2. Develop lending programs through Federal Home Loan Bank and lender consortiums

II. Optimize net revenue

A. Obtain optimal spread on all programs within the context of prudent risk management

1. Develop plan for increasing and using 0% participation loans
2. Develop a risk based pricing model
3. Conduct present value and contribution margin analysis of existing and future programs

B. Balance and optimize risk, return, and liquidity of investment portfolio

1. Establish investment portfolio performance criteria
2. Review investment policies and practices to ensure maximum yield is obtained on all funds within reasonable risk and liquidity parameters.
3. Investigate costs/benefits of a Treasury Workstation
4. Investigate costs/benefits of employing and independent investment advisor

C. Manage interest rate risk

1. Study interest rate sensitivity issues and develop interest rate risk management plan



Financial Objectives

II. Optimize net revenue (continued)

D. Control costs

1. Explore savings to be achieved by outsourcing
2. Identify and evaluate fixed and variable costs associated with current programs
3. Evaluate new programs using cost/benefit analysis
4. Optimize use of technology to reduce costs

E. Develop additional sources of revenue

1. Manage non-performing multifamily projects on a fee for service basis
2. Investigate opportunity to add services or charge fees for services

III. Maintain appropriate liquidity

A. Meet all short-term requirements

1. Create and maintain a long-term cash flow projections model
2. Locate and install an integrated cash/investment tracking system

B. Optimize liquidity position to meet unanticipated needs and take advantage of opportunities

1. Establish a line of credit with flexible terms
2. Conduct peer group analysis to determine optimal liquidity position
3. Utilize secondary markets to sell loans

**WISCONSIN HOUSING & ECONOMIC
DEVELOPMENT AUTHORITY**

**Combined Financial Statements - All
Programs for the Year Ended June 30,
1997 and Independent Auditors' Report**

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
COMBINED FINANCIAL STATEMENTS - ALL PROGRAMS:	
Combined Balance Sheet - All Programs, June 30, 1997	2
Combined Statement of Income and Expenses and Changes in Fund Balance - All Programs, Year Ended June 30, 1997	3
Combined Statement of Cash Flows - All Programs, Year Ended June 30, 1997	4
Notes to Combined Financial Statements - All Programs, Year Ended June 30, 1997	5-13



INDEPENDENT AUDITORS' REPORT

To the Members of the
Wisconsin Housing and Economic Development Authority
Madison, Wisconsin

We have audited the accompanying combined balance sheet - all programs of the Wisconsin Housing and Economic Development Authority (the "Authority") as of June 30, 1997 and the related combined statements of income and expenses and changes in fund balance - all programs and cash flows - all programs for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such combined financial statements - all programs present fairly, in all material respects, the financial position of the Wisconsin Housing and Economic Development Authority as of June 30, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, effective July 1, 1996 the Authority changed its method of accounting for investments to conform with Government Accounting Standards Board Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". A cumulative adjustment was recorded to reflect the change.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 1997 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Deloitte & Touche LLP

September 18, 1997

Wisconsin Housing and Economic Development Authority

Combined Balance Sheet -- All Programs

June 30, 1997
with comparative totals for June 30, 1996

(Thousands of Dollars)

ASSETS

	HOME OWNERSHIP REVENUE BOND RESOLUTIONS			Housing Revenue Bonds	State of Wisconsin Programs	General Fund	Combined Authority (Memorandum Only)	
	1987	1988	All Other				6/30/97	6/30/96
Cash & cash equivalents (Notes 2&4)	4,219	19,065	15,393	86,498	6,392	33,077	164,644	126,438
Investments (Notes 2&4)	32,283	148,310	31,069	130,295	16,690	25,592	384,239	364,480
Mortgage loans receivable (Notes 2&5)	309,267	658,142	262,092	374,858	12,193	126,991	1,743,543	1,622,173
Accrued interest receivable	2,352	6,747	1,965	2,858	1,109	1,571	16,602	14,273
Deferred debt financing cost	2,965	6,994	2,139	4,098	128	--	16,324	17,325
Other assets	1,982	99,273	(907)	(1,139)	(447)	27,802	126,564	15,306
Total Assets	353,068	938,531	311,751	597,468	36,065	215,033	2,451,916	2,159,995

LIABILITIES AND FUND BALANCE

Bonds & notes payable (Note 6)	331,353	892,418	269,409	428,241	8,140	108,050	2,037,611	1,760,537
Accrued interest payable (Note 6)	7,338	20,331	23,412	4,220	99	1,308	56,708	55,422
Escrow deposits	2,097	3,714	2,229	105,612	(25)	8,797	122,424	122,539
Other liabilities	51	1,130	305	1,865	10,085	8,779	22,215	17,987
Total Liabilities	340,839	917,593	295,355	539,938	18,299	126,934	2,238,958	1,956,485
Fund Balance (Note 7)	12,229	20,938	16,396	57,530	17,766	88,099	212,958	203,510
Total Liabilities and Fund Balance	353,068	938,531	311,751	597,468	36,065	215,033	2,451,916	2,159,995

The accompanying notes are an integral part of the financial statements.

Wisconsin Housing and Economic Development Authority

Combined Statement of Income and Expenses and Changes in Fund Balance -- All Programs

For the year ended June 30, 1997
with comparative totals for the year ended June 30, 1996

(Thousands of Dollars)

	HOME OWNERSHIP REVENUE BOND RESOLUTIONS			Housing Revenue Bonds	State of Wisconsin Programs	General Fund	Combined Authority (Memorandum Only)	
	1987	1988	All Other				6/30/97	6/30/96
Mortgage income	25,190	47,270	21,712	32,768	1,070	8,382	136,392	130,834
Investment interest (Note 4)	2,083	8,201	2,768	12,480	1,886	2,951	30,369	31,244
Net increase in fair value of investments (Note 2)	137	373	1,314	4,200	138	1,567	7,729	—
Less: Interest expense and debt financing costs (Note 2)	23,721	49,013	21,724	35,638	924	4,628	135,648	129,372
Net Investment Income	3,689	6,831	4,070	13,810	2,170	8,272	38,842	32,706
Mortgage service fees	—	—	—	1,747	—	1,704	3,451	3,265
Pass-through grant revenue	—	—	—	52,285	21	4,696	57,002	59,101
Other income (net)	—	3	—	—	40	812	855	1,008
Net interest and other income	3,689	6,834	4,070	67,842	2,231	15,484	100,150	96,080
Direct loan program expense	1,364	2,265	1,312	1,396	123	278	6,738	7,650
Pass-through grant expense	—	—	—	52,285	21	4,696	57,002	59,101
Grants and services	—	—	—	—	—	906	906	943
General and administrative expense	228	2,737	323	2,882	1,837	5,346	13,353	11,904
Total Expenses	1,592	5,002	1,635	56,563	1,981	11,226	77,999	79,598
Income before extraordinary losses and cumulative adjustment	2,097	1,832	2,435	11,279	250	4,258	22,151	16,482
Extraordinary losses (Note 9)	—	—	—	—	(35)	—	(35)	(62)
Income before cumulative adjustment	2,097	1,832	2,435	11,279	215	4,258	22,116	16,420
Cumulative adjustment for change in method of accounting for investments (Note 2)	(185)	(991)	(3,490)	(1,685)	(197)	(6,120)	(12,668)	—
Net Income (Loss)	1,912	841	(1,055)	9,594	18	(1,862)	9,448	16,420
Fund Balance, beginning of year	10,317	18,099	17,969	47,936	17,748	91,441	203,510	187,090
Transfers between programs (Note 7)	—	1,998	(518)	—	—	(1,480)	—	—
Fund Balance, end of year	12,229	20,938	16,396	57,530	17,766	88,099	212,958	203,510

The accompanying notes are an integral part of the financial statements.

Wisconsin Housing and Economic Development Authority

Combined Statement of Cash Flows -- All Programs

For the year ended June 30, 1997
with comparative totals for the year ended June 30, 1996

(Thousands of Dollars)

	HOME OWNERSHIP REVENUE BOND RESOLUTIONS			Housing Revenue Bonds	State of Wisconsin Programs	General Fund	Combined Authority (Memorandum Only)	
	1987	1988	All Other				6/30/97	6/30/96
Cash flows from operating activities:								
Net Income (loss)	1,912	841	(1,055)	9,594	18	(1,862)	9,448	16,420
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:								
Extraordinary losses (Note 9)	--	--	--	--	35	--	35	62
Cumulative adjustment for change in method of accounting for investments (Note 2)	185	991	3,490	1,685	197	6,120	12,668	--
Net increase in fair value of investments (Note 2)	(137)	(373)	(1,314)	(4,200)	(138)	(1,567)	(7,729)	--
Interest expense	23,024	47,374	21,042	35,292	895	4,628	132,255	125,959
Interest on investments	(2,083)	(8,201)	(2,768)	(12,480)	(1,886)	(2,951)	(30,369)	(31,244)
Depreciation and amortization	695	1,462	659	347	29	412	3,604	3,425
Loan origination fee amortization	230	253	157	--	--	(587)	53	161
(Increase) decrease in mortgage loans receivable and real estate held	26,146	(147,252)	29,418	4	1,724	(29,470)	(119,430)	(89,344)
Other	(217)	(252)	55	10,612	(2,975)	(805)	6,418	5,964
Net cash provided by (used in) operating activities	<u>49,755</u>	<u>(105,157)</u>	<u>49,684</u>	<u>40,854</u>	<u>(2,101)</u>	<u>(26,082)</u>	<u>6,953</u>	<u>31,403</u>
Cash flows from non-capital financing activities:								
Proceeds from issuance of bonds and notes	--	302,654	--	--	--	213,629	516,283	345,868
Repayments on bonds and notes	(27,100)	(68,795)	(31,079)	(12,439)	(13,061)	(182,640)	(335,114)	(311,400)
Interest paid on bonds, notes, and escrows	(23,573)	(42,558)	(24,271)	(33,761)	(1,206)	(3,669)	(129,038)	(136,570)
Cost of bond issuance and redemption	2	(2,556)	23	--	--	80	(2,451)	(2,552)
Net cash provided by (used in) non-capital financing activities	<u>(50,671)</u>	<u>188,745</u>	<u>(55,327)</u>	<u>(46,200)</u>	<u>(14,267)</u>	<u>27,400</u>	<u>49,680</u>	<u>(104,654)</u>
Cash flows from investing activities:								
Proceeds from sales and maturities of investments	72,844	256,944	54,394	122,324	25,387	32,489	564,382	533,228
Investment interest received	2,119	6,890	2,789	14,250	2,344	1,748	30,140	30,002
Purchases of investments	(77,851)	(333,627)	(55,740)	(92,673)	(10,675)	(26,580)	(597,146)	(557,474)
Net cash provided by (used in) investing activities	<u>(2,888)</u>	<u>(69,793)</u>	<u>1,443</u>	<u>43,901</u>	<u>17,056</u>	<u>7,657</u>	<u>(2,624)</u>	<u>5,756</u>
Cash flows used in capital financing activities:								
Purchases of fixed assets	--	--	--	--	--	(15,803)	(15,803)	(4,215)
Increase (decrease) in cash and cash equivalents	<u>(3,804)</u>	<u>13,795</u>	<u>(4,200)</u>	<u>38,555</u>	<u>688</u>	<u>(6,828)</u>	<u>38,206</u>	<u>(71,710)</u>
Cash and cash equivalents, beginning of year	8,023	5,270	19,593	47,943	5,704	39,905	126,438	198,148
Cash and cash equivalents, end of year	<u>4,219</u>	<u>19,065</u>	<u>15,393</u>	<u>86,498</u>	<u>6,392</u>	<u>33,077</u>	<u>164,644</u>	<u>126,438</u>

The accompanying notes are an integral part of the financial statements.

Wisconsin Housing and Economic Development Authority

Notes to Combined Financial Statements -- All Programs

For the year ended June 30, 1997
with comparative information for the year ended June 30, 1996

1. Authorizing Legislation and Funds:

The Wisconsin Housing and Economic Development Authority (the "Authority") was created in 1972 by an act ("the Act") of the Wisconsin Legislature to facilitate the purchase, construction and rehabilitation of housing for families of low and moderate income by providing or participating in the providing of construction and mortgage loans. The Authority is authorized to issue bonds to fulfill its corporate purposes up to an aggregate amount of \$625 million, excluding those being used to refund outstanding obligations and those issued under the programs described below. The Authority has no taxing power. Bonds issued by the Authority do not constitute a debt of the State of Wisconsin or any political subdivision thereof.

The Authority's mission has been expanded since 1972 through legislation authorizing the following:

A Home Ownership Loan Program, funded by revenue bonds of \$3.2 billion and \$2.9 billion through June 30, 1997 and 1996, respectively, of which approximately \$1.5 billion and \$1.2 billion are outstanding at June 30, 1997 and 1996, respectively;

A Community Housing Alternatives Program ("CHAP"), funded by bonds of up to \$99.4 million, to finance loans for residential facilities for the elderly or chronically disabled. Housing Revenue Bonds totaling \$4.7 million have been issued, of which approximately \$2.8 million and \$3.7 million are outstanding at June 30, 1997 and 1996, respectively;

A Housing Rehabilitation Program and Home Improvement Program, funded by revenue bonds outstanding at any time of up to \$100 million, to finance below-market-rate loans for home rehabilitation. Revenue bonds totaling approximately \$97.6 million have been issued, of which approximately \$8.1 million and \$21.2 million are outstanding at June 30, 1997 and 1996, respectively;

The Wisconsin Development Reserve Fund represents State of Wisconsin funds appropriated to subsidize interest and provide guarantees of principal balances of qualifying loans. At June 30, 1997 and 1996, outstanding loan guarantees totalled \$36.2 million and \$38.2 million, respectively;

A Business Development Bond Program, funded by revenue bonds of up to \$200 million, to enhance economic growth and the well-being of Wisconsin residents. As of June 30, 1997 and 1996, outstanding bonds carrying the Authority's general obligation totalled \$54.8 million and \$61.0 million, respectively. In addition, under the Business Development Bond Program, other revenue bonds are issued which do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Wisconsin. They do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. They are payable solely out of the revenues derived pursuant to the loan agreement or, in the event of default of the loan agreement, out of any revenues derived from the sale, releasing or other disposition of the mortgaged property. Based on the above, the bonds are not reflected in the financial statements of the Authority. As of June 30, 1997 and 1996, the Authority had issued 79 and 76 series, respectively, of such Business Development Bonds in an aggregate principal amount of \$65.9 million and \$59.1 million, respectively, for economic development projects in Wisconsin; and

A Beginning Farmer Program, funded by revenue bonds of up to \$10 million, to assist beginning farmers to purchase agricultural land, agricultural improvements and depreciable agricultural property. These revenue bonds do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Wisconsin. They do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. They are payable solely out of the revenues derived pursuant to the loan agreement or, in the event of default of the loan agreement, out of any revenues derived from the sale, releasing or other disposition of the mortgaged property. Based on the above, the bonds are not reflected in the financial statements of the Authority. As of June 30, 1997 and 1996, the Authority had issued 33 and 24 series, respectively, of Beginning Farmer Revenue Bonds in an aggregate principal amount of \$4.5 million and \$3.2 million, respectively.

1. Authorizing Legislation and Funds: (continued)

The Authority has, by Resolution, established other programs to promote the fulfillment of its objectives and has financed these efforts through appropriations of its General Fund balance.

2. Summary of Significant Accounting Policies:

Accounting Principles: The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, the Authority has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". The Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has a June 30 fiscal year end.

Authority Programs: The Authority accounts for each bond resolution as a separate accounting entity, each with its own assets, liabilities, fund balance, income and expense. The entities are then grouped according to type as they relate to single family (Home Ownership Revenue Bond Resolutions), multifamily (Housing Revenue Bonds), State of Wisconsin and General Fund programs for presentation in the financial statements (Note 3).

Cash and Cash Equivalents: Cash and cash equivalents include short-term, highly liquid investments which are readily convertible to cash and typically have original maturities to the Authority of three months or less.

Investments: Effective July 1, 1996, investments are carried at fair value based on quoted market prices. The collateralized and uncollateralized investment agreements are not transferable and are considered nonparticipating contracts. As such, both types of investment agreements are carried at contract value. The net increase (decrease) in the fair value of investments includes both realized and unrealized gains and losses. Prior to July 1, 1996, investments were all carried at amortized cost or contract value. In accordance with its investment policy, the Authority invests in various mortgage-backed securities, including collateralized mortgage obligations, interest-only strips, principal-only strips, and inverse floaters, all of which are reported at fair value on the Combined Balance Sheet -- All Programs (Note 4).

Mortgage Loans and Real Estate Held: Mortgage loans are carried at their unpaid principal balance less an allowance for possible loan losses. Loan origination fees and associated direct costs are deferred and recognized as income or expense over the life of the loan using the effective interest method. Real estate held is carried at the lower of cost or estimated net realizable value and is generally subject to mortgage pool insurance coverage.

Allowance for Possible Loan Losses: Provisions for possible loan losses are made through charges to expenses based on a periodic evaluation of the loan portfolios. Actual losses that may occur will be charged against such valuation allowances (Note 5).

Deferred Debt Financing Costs: Debt issuance costs and discounts are amortized ratably over the estimated life of the obligations to which they relate. Amortization of bond discounts of \$48,000 and \$58,000 for the year ended June 30, 1997 and 1996, respectively, is included in interest expense in the Combined Statement of Income and Expenses and Changes in Fund Balance -- All Programs.

Other Assets: Interfund activity between programs is reported in other assets. Negative amounts represent payables between programs and net to zero. In addition, other assets include bond proceeds receivable (\$95.8 million), land (\$1.9 million), a rental property (\$1.1 million) and an office building (\$15 million and \$1.8 million expended as of June 30, 1997 and 1996, respectively) that is under construction and expected to be complete by October, 1997. The total cost of this project is expected to be approximately \$22 million.

Interest Expense and Debt Financing Costs: Investment income earned on escrow deposits is allocated to the mortgages based upon investment results. Interest expense and debt financing costs include \$8,707,000 and \$5,135,000 of investment income allocated to mortgage escrow deposits for the years ended June 30, 1997 and 1996, respectively.

Pass-through Grant Revenue and Expense: In accordance with Government Accounting Standards Board Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance", pass-through grants are reported in the financial statements as both revenue and expense. During the year ended June 30, 1997 and 1996, the Authority received grants on behalf of secondary recipients for various purposes including a Section 8 rent subsidies (\$52.2 million and \$54.4 million), voucher assistance (\$3.1 million and \$2.9 million), Section 236 rent subsidies (\$.9 million and \$1 million) and other miscellaneous grant programs (\$.8 million and \$.8 million), respectively.

2. Summary of Significant Accounting Policies: (continued)

Combined Authority Totals: The total columns reflect the totals of the similar accounts of all programs. Since the assets and revenues of certain programs are restricted by the related bond resolutions, the memorandum totals are for illustrative purposes only and do not indicate that the combined assets are available for other than the provisions set forth in the separate bond resolutions of the individual programs.

Change in Method of Accounting: Effective July 1, 1996, the Authority adopted Statement of the Governmental Accounting Standards Board (GASB) No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This standard requires investments to be reported at fair value with gains and losses included in the Combined Statement of Income and Expenses and Changes in Fund Balance -- All Programs. A cumulative adjustment as of July 1, 1996 decreased total investments by \$20,264,000 and resulted in a charge to the Combined Statement of Income and Expenses and Changes in Fund Balances -- All Programs of \$12,668,000, which is net of \$7,596,000 allocated to certain escrow deposits (see Note 4).

Approved Accounting Standards Not Adopted: In November, 1994, the GASB issued Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers". This Statement must be adopted by the Authority, effective July 1, 1997. Statement No. 27 establishes recording and disclosure requirement related to the Authority's participation in the Wisconsin Retirement System. The Authority's management has not determined the impact on its Financial Statements of adopting this new accounting standard as the information needed to adopt this standard has not been made available to the Authority by the Wisconsin Retirement System.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Description of Programs:

Home Ownership Revenue Bond Resolutions include all bonds secured by single family mortgage loans. The funds are used to purchase mortgage loans on single family residential housing units for persons and families of low and moderate income in Wisconsin. The bond issues are grouped by bond resolution and each may have different covenants and requirements (Note 6). Home Ownership Revenue Bond resolutions dated 1987 and 1988 are reported separately while resolutions dated 1985, 1986, 1989, 1991 and 1992 are combined.

Housing Revenue Bonds include the 1974 and 1993 Housing Revenue Bond Resolutions. These funds are used to finance the construction, rehabilitation and permanent financing for multifamily rental housing developments generally designed for persons and families of low and moderate income, the elderly, disabled or special needs persons.

State of Wisconsin programs include the Home Improvement Loan program and the Wisconsin Development Reserve Fund administered by the Authority. The Home Improvement Revenue Bond Program provides loans for eligible borrowers to make improvements to owner-occupied properties. Although no bonds have been issued since 1992, loans continue to be originated from excess funds in the program. After repayment of the bonds, any remaining fund balances must be paid to the State of Wisconsin General Fund. The Wisconsin Development Reserve Fund administered for the State of Wisconsin includes the Credit Relief Outreach Program (CROP), the Agribusiness Fund, the Tourism Fund, the Contract Fund, the Target Area Fund, the Nonpoint Source Pollution Abatement Program, the Clean Air Fund, the Ozone Fund, the Agricultural Chemical Spill Loan Guarantee Program, and the Farm Assets Reinvestment Management Program, all of which provide loan guarantees and interest rate subsidies on loans.

The General Fund includes the Business Development Bond Program as well as all income and operating expenses which are not allocated to other programs or funds. The Business Development Bonds (Note 6) carry the general obligation of the Authority and are issued to enhance the economic growth in Wisconsin.

4. Cash, Cash Equivalents and Investments:

The Authority is required by statute to invest at least 50% of the General Fund funds in obligations of the state, of the U.S., or of agencies or instrumentalities of the U.S., or obligations, the principal and interest of which are guaranteed by the U.S. or agencies or instrumentalities of the U.S. Each bond resolution specifies what constitutes a permitted investment and such investments may include obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper; bankers' acceptances; and repurchase agreements and investment agreements.

4. Cash, Cash Equivalents and Investments: (continued)

The Authority also enters into collateralized investment contracts with various financial institutions. These investment contracts are generally collateralized by obligations of the United States government.

The Authority is also authorized to invest its funds in the State Investment Fund. The Authority has established a Master Repurchase Agreement with its banking institutions to govern the purchase of repurchase agreements. This agreement requires the institution to take possession of collateral having a market value of at least 103% of the cost of the repurchase agreement. The underlying collateral must be maintained at this level at all times.

The Authority's investments in mortgage-backed securities and structured notes had a carrying value of approximately \$59.2 million and \$92.6 million and a fair value of approximately \$47.9 million and \$76.0 million as of June 30, 1997 and 1996, respectively. The Authority currently intends to hold such mortgage-backed securities and structured notes until maturity or until they can be sold in more favorable market conditions. These securities are derived from cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagors which may result from a decline in interest rates.

Categorized in accordance with GASB Statement No. 3, the Authority's investments in uncollateralized investment contracts are a Category 3 level of risk which include uninsured or unregistered investments and uncollateralized securities held by the Authority's agent or trustee in the Authority's name. All other investments and cash equivalents are a Category 1 level of risk, representing investments that are insured or registered, or collateralized with securities that are held by the Authority's agent or trustee in the Authority's name.

Cash and Cash Equivalents: At June 30, 1997 and 1996, the Authority had cash balances totaling \$3,292,000 and \$3,764,000, respectively. Of the balances at June 30, 1997 and 1996, \$500,000 was covered by federal or state depository insurance.

The carrying amounts of cash and cash equivalents, which approximate fair value, at June 30, 1997 and 1996 are as follows (in thousands of dollars):

	<u>6/30/97</u>	<u>6/30/96</u>
Cash	3,292	3,764
Money Market Funds	154,352	122,674
Short-term Investment Agreements	7,000	--
Total Cash and Cash Equivalents	<u>164,644</u>	<u>126,438</u>

Investments: The investments at June 30, 1997 and 1996 are as follows (in thousands of dollars):

	<u>6/30/97</u>		<u>6/30/96</u>	
	<u>Cost</u>	<u>Fair (Carrying) Value</u>	<u>Cost (Carrying) Value</u>	<u>Fair (Contract) Value</u>
Certificates of Deposit	4,844	4,844	4,256	4,256
U.S. Gov't Securities	13,714	13,120	14,723	13,930
U.S. Agency Securities	95,676	94,227	98,613	95,747
Municipal Bonds	11,315	11,303	12,110	12,087
Corporate Notes	4,365	4,372	5,105	5,091
Uncollateralized Investment Agreements	27,453	27,453	35,555	35,555
Collateralized Investment Contracts	181,052	181,052	101,530	101,530
Mortgage-Backed Securities	59,296	47,868	92,588	76,020
Total Investments	<u>397,715</u>	<u>384,239</u>	<u>364,480</u>	<u>344,216</u>

In accordance with provisions of certain escrow agreements related to mortgages outstanding under the Housing Revenue Bond Program and the General Fund, escrow deposits are to be invested in accordance with the agreements and investment income is to be allocated to the escrow deposits based upon investment results. Investment income of \$8,707,000 and \$5,135,000 was allocated to the mortgage escrow deposits for the years ended June 30, 1997 and 1996, respectively, and is included in interest expense and debt financing costs in the Combined Statement of Income and Expenses and Changes in Fund Balance -- All Programs.

4. Cash, Cash Equivalents and Investments: (continued)

Portions of cash, cash equivalents and investments are restricted and pledged to the payment of the principal, interest and sinking fund installments in accordance with the terms of the bond resolutions and note agreements.

The asset restrictions at June 30, 1997 and 1996 are as follows (in thousands of dollars):

	<u>6/30/97</u>	<u>6/30/96</u>
Home Ownership Revenue Bond Resolutions:		
1987.....	8,333	8,653
1988.....	100,237	11,305
All Other.....	18,824	19,459
Housing Revenue Bonds.....	38,379	38,379
State of Wisconsin Programs.....	366	694
General Fund.....	199	254
	<u>166,338</u>	<u>78,744</u>

Cash, cash equivalents and investments of the funds at June 30, 1997 and 1996 met or exceeded the requirements.

5. Mortgage Loans Receivable:

Relevant mortgage information at June 30, 1997 and 1996 is as follows (in thousands of dollars):

	<u>Allowance for Possible Loan Losses</u>		<u>Unamortized Loan Origination Costs/(Income)</u>		<u>Real Estate Held</u>	
	<u>6/30/97</u>	<u>6/30/96</u>	<u>6/30/97</u>	<u>6/30/96</u>	<u>6/30/97</u>	<u>6/30/96</u>
Home Ownership Revenue Bond Resolutions:						
1987.....	227	227	2,283	2,513	51	51
1988.....	--	--	3,835	1,655	128	19
All Other.....	--	--	1,832	1,723	118	--
Housing Revenue Bonds.....	6,843	6,843	--	--	98	--
State of Wisconsin Programs.....	40	45	--	--	--	--
General Fund.....	1,200	634	(866)	(747)	91	36
	<u>8,310</u>	<u>7,749</u>	<u>7,084</u>	<u>5,144</u>	<u>486</u>	<u>106</u>

Home Ownership Revenue Bonds and Housing Revenue Bonds are collateralized by first mortgage liens. State of Wisconsin Programs are collateralized by second mortgage liens and the General Fund is collateralized by first or second mortgage liens. Also, the General Fund loans include Business Development loans which are collateralized by security interests and Letters of Credit on the projects.

Home Ownership Revenue Bonds are insured by Mortgage Pool Insurance with one exception; the 1987 Series A and 1987 Series D&E bonds are self-insured. State of Wisconsin Programs are insured by FHA insurance.

Provision for possible loan losses were \$325,000 and \$412,000 and actual loan charge offs were \$21,000 and \$81,000 for the years ended June 30, 1997 and 1996, respectively. The allowance for possible loan losses was further affected by a reclassification in the amount of \$257,000 for the year ended June 30, 1997.

6. Bonds and Notes Payable:

Bonds and notes payable at June 30, 1997 and 1996 of the Authority consist of the following (in thousands of dollars):

	<u>6/30/97</u>	<u>6/30/96</u>
General obligation bonds and notes.....	1,846,034	1,540,809
Special and subordinated obligation bonds.....	192,437	220,708
Less: Deferred Amount on Refunding.....	(860)	(980)
Total Bonds and Notes Payable	<u>2,037,611</u>	<u>1,760,537</u>

6. Bonds and Notes Payable: (continued)

Interest on outstanding general and special obligation bonds is payable either monthly, every 35 days, quarterly or semiannually except for interest on accrual bonds which is payable at maturity. At June 30, 1997 and 1996, interest on accrual bonds was \$19,549,000 and \$21,786,000, respectively.

The Authority's general obligation bonds and notes are collateralized by the revenues and assets of the Authority, subject to the provisions of bond resolutions and note agreements which pledge particular revenues or assets to specific bonds or notes. Any particular series may contain both term bonds, subject to mandatory sinking fund requirements, and serial bonds which mature at various dates. The bonds may be redeemed at the Authority's option at various dates at prices ranging from 100% to 103% of par value. The notes can be prepaid in part or in full at any time and the interest rate, which is reset periodically, is variable based upon an index.

General Obligation Bonds and Notes Payable: (in thousands of dollars)

Program/Bond Resolution		Interest Rates*	Dated**	Maturities*	6/30/97	6/30/96
Housing Revenue Bonds:						
1974	1986 Series A and B	7.625% - 8.500%	09/01/86	1997-2017	2,530	2,575
	1988 Series A and B	7.100% - 8.250%	02/01/88	1997-2018	10,060	10,245
	1989 Series A, B and C	7.100% - 7.850%	09/01/89	1997-2020	13,735	13,950
	1992 Series A	5.400% - 6.850%	01/01/92	1997-2012	63,740	66,090
	1992 Series B, C & D	6.000% - 7.200%	04/01/92	1997-2022	71,040	71,910
	1993 Series A and B	4.300% - 5.650%	10/01/93	1997-2023	70,580	73,145
	1993 Series C	4.500% - 5.875%	12/01/93	1997-2019	135,335	139,670
	1995 Series A and B	4.450% - 6.500%	07/01/95	1997-2026	50,485	51,700
					<u>417,505</u>	<u>429,285</u>
Home Ownership Revenue Bonds:						
1985	1985 Issue I	9.700% - 10.375%	06/01/85	2002-2012	7,271	9,669
	1985 Issue III	8.900% - 9.125%	12/01/85	1998-2005	868	1,380
					<u>8,139</u>	<u>11,049</u>
1986	1986 Series A	7.700% - 8.125%	08/01/86	1997-2016	5,165	6,540
	1986 Series B	6.600% - 7.375%	11/01/86	1997-2017	22,200	25,565
					<u>27,365</u>	<u>32,105</u>
1987	1987 Series A	7.700% - 7.750%	05/01/87	1997-2014	450	6,365
	1987 Series B and C	7.700% - 7.850%	08/01/87	1997-2016	17,215	21,520
	1987 Series D and E		12/01/87		-	280
	1992 Series A and B	6.000% - 7.100%	03/01/92	1997-2023	73,845	81,565
	1994 Series A and B	5.050% - 6.750%	04/15/94	1997-2025	74,685	79,215
	1995 Series C,D&E (Taxable) ..	4.800% - 7.450%	05/15/95	1997-2026	96,815	99,905
	1995 Series F,G&H (Taxable) ..	4.400% - 7.875%	09/01/95	1997-2026	68,740	70,000
					<u>331,750</u>	<u>358,850</u>
1988	1988 Series A and B	7.250% - 8.000%	06/01/88	1997-2000	3,260	4,380
	1988 Series C	7.700% - 7.700%	08/16/88	1997-1998	3,140	5,050
	1988 Series D	7.300% - 7.900%	10/01/88	1997-2005	16,890	19,160
	1989 Series A	7.050% - 7.500%	05/01/89	1997-2017	19,430	19,825
	1989 Series B and C	7.200% - 7.850%	10/15/89	1997-2021	59,029	60,368
	1990 Series A and B	7.050% - 8.000%	05/01/90	1997-2020	39,390	66,755
	1990 Series D and E	7.100% - 8.000%	09/01/90	1997-2021	28,875	42,140
	1991 Series A and B	6.850% - 7.850%	12/01/90	1997-2024	59,885	64,470
	1992 Series 1 and 2	5.850% - 6.875%	06/01/92	1997-2024	76,555	84,205
	1995 Series A and B	5.750% - 7.100%	01/01/95	1997-2025	112,525	121,420
	1996 Series A and B	4.000% - 6.150%	03/15/96	1997-2027	75,000	75,000
	1996 Series C and D	4.500% - 6.450%	07/01/96	1998-2027	75,000	-
	1996 Series E and F	4.050% - 6.200%	11/15/96	1998-2027	60,000	-
	1996 Series G	4.050%	12/10/96	1998	83,440	-
	1997 Series A,B&C (Taxable) ..	4.100% - 5.700%	04/01/97	1998-2028	85,000	-
	1997 Series D&E	4.050% - 6.000%	06/01/97	1998-2028	85,000	-
	1997 Series F (Taxable)	Variable	07/29/97	2007	10,000	-
					<u>892,419</u>	<u>562,773</u>

6. Bonds and Notes Payable: (continued)

<u>Program/Bond Resolution</u>	<u>Interest Rates*</u>	<u>Dated**</u>	<u>Maturities*</u>	<u>6/30/97</u>	<u>6/30/96</u>
Home Ownership Revenue Bonds: (continued)					
1989 1989 Series A (Taxable)	9.800%	07/01/89	1997-2019	2,160	2,745
1991 1991 Series 1, 2 and 3.....	6.200% - 7.200%	07/01/91	1997-2022	58,645	66,940
Business Development Revenue Bonds:					
1988 Series 3-5	7.875% - 8.000%	Various	1997-2003	965	1,660
1989 Series 1, 3-9, 11-12, 17, 19-20, 22, 28.....	7.100% - 8.000%	Various	1997-2014	14,240	16,950
1990 Series 2-4,6	7.100% - 7.750%	Various	1997-2010	3,930	4,650
1991 Series 1-6	6.100% - 7.050%	Various	1997-2006	7,565	8,465
1994 Series 1-4	Variable	Various	1997-2014	9,550	10,310
1995 Series 1-2, 4-9.....	Variable	Various	1997-2015	18,300	18,985
				54,550	61,020
Notes Payable:					
Commercial Paper	Variable	Various	1997	7,616	7,261
Home Ownership Revenue Bond Early Redemption	Variable	Various	1997	3,385	6,581
Temporary Mortgage Financing	Variable	04/25/95	1998	26,000	1,500
Building Construction Financing	Variable	06/10/96	1997	16,500	700
				53,501	16,042
Total General Obligation Bonds and Notes***				1,846,034	1,540,809

Special and Subordinated Obligation Bonds are special limited obligations of the Authority and are collateralized by the assets of each bond resolution. They are payable solely from the assets and revenues pledged.

Special and Subordinate Obligation Bonds: (in thousands of dollars)

<u>Program/Bond Resolution</u>	<u>Interest Rates*</u>	<u>Dated**</u>	<u>Maturities*</u>	<u>6/30/97</u>	<u>6/30/96</u>
Special Housing Revenue Bonds:					
1993 1994 Series	7.400% - 9.250%	01/01/94	2024	11,198	11,858
Housing Rehabilitation Loan Revenue Bonds:					
1979 Subordinate Bond, R-1		08/01/79		--	4,880
Subordinate Bond, R-2.....		11/01/88		--	1
				--	4,881
Home Improvement Revenue Bonds:					
1988 1988 Series A	7.200% - 7.750%	11/01/88	1997-2006	4,375	6,705
1990 Series A and B	7.300% - 7.900%	04/01/90	1997-2006	1,130	4,560
1992 Series A and B	5.800% - 7.000%	05/01/92	1997-2010	2,635	5,055
				8,140	16,320
Home Ownership Revenue Bonds:					
1992 1993 Series A	4.800% - 6.500%	06/01/92	1997-2025	82,350	83,805
1993 Series B (Taxable).....	6.450% - 7.400%	04/01/93	2010-2017	18,339	24,619
1994 Series C and D.....	5.000% - 6.650%	08/01/94	1997-2025	46,210	49,370
1994 Series E and F	5.750% - 7.550%	12/01/94	1997-2026	26,200	29,855
				173,099	187,649
Total Special and Subordinated Obligation Bonds				192,437	220,708

6. Bonds and Notes Payable: (continued)

Special and Subordinate Obligation Bonds:

* Interest rates and maturities are as of June 30, 1997.

** Accrual Bonds, Select Auction Variable Rate Securities (SAVRS), Residual Interest Bonds (RIBS) and Taxable Floating Rate Bonds are dated the date of delivery. The Authority committed to the issue of the 1997 Series D, E and F (Taxable) Bonds as of June 30, 1997 for delivery as of July 29, 1997.

*** In 1990 the Authority defeased \$48,390,000 of Insured Mortgage Revenue Bonds and as of June 30, 1997, the remaining outstanding defeased debt was \$38,790,000.

Scheduled debt maturities in the five fiscal years subsequent to June 30, 1997 are as follows (in thousands of dollars):

	1998	1999	2000	2001	2002	Thereafter
Home Ownership Revenue Bond Resolutions:						
1987	6,940	5,490	5,350	5,680	6,040	302,250
1988	99,125	16,310	15,645	15,080	17,050	729,209
All Others	5,024	5,232	5,512	5,825	7,075	240,739
Housing Revenue Bonds	12,861	13,586	14,253	15,028	15,924	357,052
State of Wisconsin Programs	550	590	630	665	735	4,970
General Fund	58,186	5,045	4,535	4,250	4,005	32,030
	<u>182,686</u>	<u>46,253</u>	<u>45,925</u>	<u>46,528</u>	<u>50,829</u>	<u>1,666,250</u>

7. Fund Balance Restrictions:

Programs that are financed by the issuance of bonds are accounted for separately in accordance with each of the bond resolutions. Program assets and revenues are pledged to bondholders. Revenues in excess of required amounts are available to be transferred to the General Fund.

Amounts transferred to the General Fund from the bond resolutions are free and clear of any lien or pledge created by the bond resolutions and may be used for any lawful purpose. As of June 30, 1997, approximately \$85 million of the General Fund fund balance was restricted for various purposes including credit enhancements, loan programs, operating expenses, collateral for note agreements, and property replacement.

8. Retirement Benefits:

All eligible Authority employees participate in the Wisconsin Retirement System ("System"), a cost-sharing multiple-employer public employee retirement system ("PERS"). The payroll for employees covered by the system for the year ended June 30, 1997 was \$6,840,000; the employer's total payroll was \$6,913,000.

All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees are required by statute to contribute 6.5% of their salary to the plan. Employers may make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. The total required contribution for the year ended June 30, 1997 was \$1,006,000, all of which was contributed by the Authority.

Employees who retire at or after age 65 are entitled to receive a retirement benefit. Employees may retire at age 55 and receive actuarially reduced benefits. Retirement benefits are calculated as 1.6% of final average earnings for each year of creditable service. Final average earnings is the average of the employees' three highest years earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation after January 1, 1990, creditable service in each of five years is required for eligibility for a retirement annuity.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of the State Statutes. The System issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, Wisconsin 53707-7931.

8. Retirement Benefits: (continued)

The System uses the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method the Unfunded Accrued Actuarial Liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any added liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The unfunded accrued actuarial liability is being amortized over a 40 year period beginning January 1, 1990. Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits is presented in the System's annual financial report. The total System unfunded liability as of December 31, 1996 was \$2.09 billion. The unfunded liability for the Authority as of December 31, 1996 is not available.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date and disregarding the System's funding objective of maintaining stable contribution rates over the long-term future. The measure is intended to help users assess the Systems' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation as of December 31, 1996 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$32,819.8 million. The System's net assets, at actuarial value, available for benefits on that date were \$33,962.6 million, leaving assets in excess of pension benefit obligation of \$1,142.8 million. The Authority's contributions as a percent of total contributions is not available.

9. Extraordinary Losses:

During 1997 and 1996, the Authority redeemed various outstanding bonds early according to the redemption provisions in the bond resolutions. Certain of these redemptions resulted in extraordinary losses due to the write-off of remaining unamortized deferred debt financing costs. A summary of all early redemptions follows (in thousands of dollars):

	Redemptions		Extraordinary Losses	
	1997	1996	1997	1996
Home Ownership Revenue Bond Resolutions:				
1987	20,395	15,860	—	—
1988	57,185	55,095	—	—
All Other	26,183	25,060	—	42
Housing Revenue Bonds	—	35,280	—	—
State of Wisconsin Programs	2,020	1,465	35	20
General Funds	1,505	1,620	—	—
Total	<u>107,288</u>	<u>134,380</u>	<u>35</u>	<u>62</u>